

## Message Text

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ORIGIN EB-07

INFO OCT-01 NEA-09 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07 INT-05

L-02 NSAE-00 NSC-05 OMB-01 PM-03 SAM-01 OES-03 SP-02

SS-15 STR-01 TRSE-00 FRB-03 /080 R

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R 202329Z MAR 75

FM SECSTATE WASHDC

TO AMEMBASSY ALGIERS

C O N F I D E N T I A L STATE 063960

E.O. 11652:

TAGS: ENRG

SUBJECT: USG CONSIDERATION OF FUTURE ROLE FOR LNG

REF: ALGIERS 615

1. REFTTEL RAISED QUESTION REGARDING COMPARATIVE COSTS OF COAL GASIFICATION AND LNG. ESTIMATES FOR COAL GASIFICATION IN THE US VARY WIDELY, BUT MOST ARE HIGHER THAN THE \$1.845 PER MILLION BTUS FIGURE QUOTED IN PETROLEUM ECONOMIST. HOWEVER, THESE ESTIMATES REFLECT CURRENT HIGH COAL PRICES AND THE FIRST STAGE OF TECHNOLOGY. THEY WILL PROBABLY BE REVISED DOWNWARD AS WE GAIN EXPERIENCE AND CAN TAKE ADVANTAGE OF TECHNOLOGICAL IMPROVEMENTS. COAL PRICES MAY ALSO FALL IN THE FUTURE. OTHER FACTORS THAT WOULD HAVE TO BE CONSIDERED FOR COMPARATIVE PURPOSES ARE A) LNG IS A PROVEN TECHNOLOGY WHILE COAL GASIFICATION IS STILL IN THE EXPERIMENTAL STAGE, AND B) DOMESTIC COAL GASIFICATION HAS SUPPLY SECURITY AND BALANCE OF PAYMENTS ADVANTAGES OVER  
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FOREIGN LNG.

2. FYI-THE ADMINISTRATION'S ENERGY RESOURCES COUNCIL IS CURRENTLY ENGAGED IN A HIGH-LEVEL REVIEW OF LNG AND WILL PROBABLY DEVELOP A COMPREHENSIVE LNG POLICY WITHIN A FEW MONTHS. WHILE IT IS TOO EARLY TO PREDICT THE POLICY LINE, THERE IS GROWING SENTIMENT HERE AGAINST NEW LNG IMPORTS FOR THE FOLLOWING REASONS:

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A) INCREASING LNG IMPORTS RUNS COUNTER TO OUR NATIONAL OBJECTIVE OF REDUCING OUR DEPENDENCY ON FOREIGN ENERGY SUPPLIES.

B) THE LARGE CAPITAL COSTS OF THE PROJECTS AND THE HIGH PRICE BEING DEMANDED FOR LNG RAISES SERIOUS QUESTIONS AS TO WHETHER ADDITIONAL LNG IMPORTS ARE IN OUR INTEREST.

C) LNG IMPORTS MAY BE LESS SECURE THAN OIL IMPORTS. BECAUSE OF THE SPECIAL LIQUEFACTION AND TRANSPORT FACILITIES INVOLVED, THE LNG SUPPLY LINE WOULD LACK FLEXIBILITY. MOREOVER, THE DEPENDENCE WOULD BE CONCENTRATED GEOGRAPHICALLY RATHER THAN SPREAD OUT THROUGH THE COUNTRY AS A WHOLE.

D) SINCE LNG CONTRACTS ARE FOR 20-30 YEARS, WE WOULD BE LOCKED INTO HIGH COST LNG SUPPLIES EVEN IF OIL PRICES FALL IN THE FUTURE, OR IF NEW CHEAPER ENERGY SOURCES COME ON STREAM.

3. THE ROLE OF LNG IN OUR NATIONAL ENERGY BALANCE IS CLOSELY CONNECTED WITH OTHER ADMINISTRATION ENERGY PROPOSALS. IF CONGRESS APPROVES DEREGULATION OF DOMESTIC GAS PRICES, DOMESTIC SUPPLY SHOULD INCREASE SIGNIFICANTLY AND DEMAND WILL BE DAMPENED, BOTH IN TERMS OF REDUCED USAGE AND SHIFTS BY SOME INDUSTRIAL USERS TO OTHER TYPES OF ENERGY. WITH DEREGULATION, THE NEED FOR FOREIGN GAS SUPPLIES WILL BE SUBSTANTIALLY REDUCED. END FYI.

4. WE WILL ADVISE AS SOON AS THE ERC HAS CONCLUDED ITS WORK ON LNG. IN THE INTERIM, WE THINK IT WISE FOR THE

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EMBASSY TO CONTINUE TO BE AN INTERESTED OBSERVER OF LNG NEGOTIATIONS AND HELP FACILITATE CONTACTS BETWEEN SONATRACH AND AMERICAN FIRMS WHEN POSSIBLE. CARE SHOULD BE TAKEN, HOWEVER, TO AVOID GIVING THE IMPRESSION THAT THE USG OFFICIALLY SUPPORTS CONCLUSION OF NEW CONTRACTS TO PROVIDE LNG TO US.

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